



United States Department of Agriculture
Farm Service Agency

**Kentucky
Guaranteed Lender News**

March 2014

Message from the State Executive Director



John W. McCauley
State Executive Director

In 2013, the Kentucky Farm Loan Program was once again a national leader. We continued to grow our program through increased outreach and building on successful relationships with our commercial lending partners. Last year, we were at the top of the chart in several national rankings: 1st – Direct Operating Loans; 1st – Youth Loans & Youth Loan Dollars; 2nd – Total Loan Programs (Both Direct & Guaranteed); 3rd – Microloans (Behind Mississippi & Texas who tied for the top spot); 3rd – Beginning Farmer Loans; 3rd – Direct Loans Existing Caseload; and 4th in Socially Disadvantaged Loans. In addition, I am very proud of our farm loan staff across the Commonwealth. When challenges knocked on our door, our dedicated team of professionals continued to step up to the plate and get the job done, and done very well!

As we look ahead, 2014 is already a busy year. On January 17th, U.S. Secretary of Agriculture Tom Vilsack came to Bell County to announce that Kentucky and three additional states would be joining the Strikeforce Initiative. The Secretary was joined by Governor Steve Beshear and Congressman Hal Rogers for this very important event. I was personally thrilled that Secretary Vilsack made this momentous announcement in my home county before a large crowd at Pine Mountain State Resort Park. The Strikeforce Initiative was launched in 2010 by USDA to stimulate rural growth and opportunity in an effort to leverage partnerships in poverty stricken rural areas by ensuring that every community has equal access to USDA programs. Since the inception, USDA has partnered with over 400 community organizations, business foundations, universities, and other groups to support 80,300 projects and ushered more than \$9.7 billion in investments into rural America. As the USDA Strikeforce Lead in Kentucky, I look forward to working with our partners in this effort to move our Commonwealth forward.

Finally, the Agricultural Act of 2014, also known as the 2014 Farm Bill, was signed by President Barack Obama on February 7, 2014. The Agricultural Act of 2014 is important legislation that provides authorization for services and programs that impact every American and millions of people around the world. For the latest on 2014 Farm Bill programs administered by FSA, please visit our Farm Bill website at www.fsa.usda.gov/farmbill.

In the coming weeks, I look forward to visiting with many of our commercial banking partners and agricultural producers across Kentucky!

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FSA Allows Lenders to use Evaluations Instead of Appraisals for Loans of \$250,000 or Less

\$ Lenders that originate Farm Service Agency (FSA) guaranteed loans may now use internal real estate “collateral evaluations” to support loan requests of \$250,000 or less, rather than appraisals.

This policy change will allow lenders more flexibility and a faster underwriting process, and is consistent with industry standards.

Lenders must follow their regulator’s “Interagency Appraisal and Evaluation Guidelines” and apply these same policies to FSA guaranteed loans as non-guaranteed loans. In addition, lenders should request an appraisal when they would do so for un-guaranteed loans even if the loan is under the threshold. For example, a lender should consider obtaining an appraisal as an institution risk increases or high risk financial transactions, such as;

- Loans with combined loan-to-value ratios in excess of the supervisory loan-to-value limits.
- Atypical properties.
- Properties outside the institution’s traditional lending market.
- Transactions involving existing extensions of credit with significant risk to the institution.
- Borrowers with high risk characteristics.

Loan servicing actions where appraisals are required include;

- Transfer of security and assumption of debt.
- Debt write-down.
- Servicing FSA-2253 “Shared Appreciation Agreement for Guaranteed Loans”.
- Liquidation.
- Partial releases of security if determined necessary by FSA.

An acceptable evaluation must:

- Identify the location of the property.
- Provide a description of the property, including any improvements and its current & projected use.
- Provide confirmation that the property was physically inspected and the date of the inspection.

- Describe the analysis performed and supporting information used to determine the property’s market value.
- Provide information supporting the preparer’s experience and other qualifications to complete the evaluation and independence from the loan transaction.
- Include an effective date of the evaluation and a signature of the preparer.

When requested, the lender must demonstrate that the method or tools used to determine value is consistent with safe and sound lending practices. This includes supporting the qualifications of the person completing the evaluation or the validity of any automated tool used.

A description of the method of establishing the real estate value – whether appraisal or evaluation – needs to be described to FSA in their loan narrative. Appraisals or evaluations are not required on property to be taken as additional security that is clearly in excess of what is needed to fully secure the loan.

Loans Greater Than \$250,000

For loans greater than \$250,000, the lender must document the value of the real estate using a current appraisal (not more than 12 months old) completed by a State Certified General Appraiser. The Agency may allow an appraisal more than 12 months old to be used only if documentation provided by the lender reflects each of the following;

- Market conditions have remained stable or improved based on sales of similar properties.
- The property in question remains in the same or better condition.
- The value of the property has remained the same or increased.



Guaranteed Loan Limit

The Farm Service Agency will not guarantee any loan that would result in the applicant's total indebtedness exceeding the limits established in Handbook 1-FLP, paragraph 29. The maximum, FO, CL, OL and LOC levels include the guaranteed loan being made plus any outstanding direct or guaranteed principal balances owed by anyone who will sign the promissory note. The dollar limit of guaranteed loans is adjusted annually based on the percentage change in the Prices Paid by Farmers Index, as compiled by USDA. The total outstanding combined guaranteed FO, CL, SW, OL, and LOC principal balance cannot exceed \$1,355,000 for fiscal year 2014. 2-FLP paragraph 244(A).

Using an Allonge when Closing a Guaranteed Loan

Because of limited funding and the change to instruction in 2-FLP Amendment 23 par. 244C and par 247A, FSA is experiencing more guaranteed loans that are closing prior to obtaining guarantee funding with the expectation of receiving a guarantee when funding becomes available. The following guidance has been developed to address questions that may arise and to assist in closing these loans and issuing the Loan Guarantee. Final guidance will be released in a 2-FLP amendment.

Using an allonge for a loan already closed by the lender when guaranteed funds were not available:

For guaranteed loan closed prior to obligation, FSA requires borrowers to execute either a new promissory note or an allonge after obligation to establish a new closing date. The allonge also establishes the principal amount at the time the guarantee is issued. When an allonge is used, FSA will use the allonge date and the principal amount stated on the allonge to complete Form FSA-2235, "Loan Guarantee". All rules/guidance for the promissory note, applies to the allonge.

Requirements for an allonge:

Lenders may use their own allonge. FSA does not require any specific language other than the allonge must:

1. Identify the promissory note which it is modifying.

2. Be signed by the borrowers as they have signed the promissory note.
3. State the principal amount and accrued interest on the loan, as of the date it is executed.
4. Include the date it is executed by the borrowers.
5. Be provided to FSA along with a copy of the original promissory note, before receiving the Loan Guarantee.

If a payment has been made before issuing the guarantee:

If the principal amount has been paid down since the promissory note was executed, the principal amount, which may be lower than the obligated loan amount, will be entered on Form FSA-2235 "Loan Guarantee" and entered into GLS.

1. If the principal has been paid down and there is accrued interest on the note, the lender may modify the loan to establish a new principal amount, which may include part of or all the accrued interest. In all cases, the new principal balance cannot be greater than loan amount approved and obligated by FSA.
2. If the new principal balance is lower than the obligation amount, FSA will need to do a partial-NOT full-deobligation in GLS.

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New Maximum Interest Rate Rule

FSA's old interest rate policy was described as too vague and too difficult to determine Agency's interest rate compliance. It was also no longer consistent with industry standards or other agencies with similar programs.

New rule removes the term "average agricultural loan customer". It makes compliance easier by tying maximum rates to specified spreads over widely published indices. Enables Lender's to price loans as they currently do. And ensures FSA borrowers are receiving the benefits resulting from lower interest rate.

Maximum Interest Rates for Lenders Using Risk-Based Pricing Practices:

- Risk based pricing is when the interest rate is determined by the time value of money and lender's estimated probability of loan default.
- When lenders utilize risk-based pricing practices, the rate should be based on one tier lower (representing lower risk) than the borrower would receive without a guarantee and should be discussed in the loan narrative.
- Lenders who use risk-based pricing practices will provide FSA upon request a copy which will be maintained in the lenders operation file.
- Lender's pricing practices are strictly confidential and for FSA use only.

Maximum Interest Rates for Lenders Not Using Risk-Based Pricing Practices

- The maximum interest rate (benchmark) will be based on the length of time the rate is fixed rather than loan type.
- The maximum interest rate may not exceed the benchmark at the time of the loan closing or restructuring.
- OL/FO loan with variable rates or rates fixed less than 5 years, the benchmark will be 6.5% above the 3-month LIBOR.
- OL/FO loan with rates fixed for 5 years or longer, the benchmark will be 5.5% above the 5-year Treasury.
- In the event the 3-month LIBOR falls below 2%, the maximum will increase by 100 basis points (1%) for both;

7.5% above 3-month LIBOR

6.5% above 5-year Treasury

The following links will be used by FSA to obtain historical interest rates for 3-month LIBOR and 5-year Treasury.

The 3-month LIBOR http://mortgage-x.com/general/indexes/historical_wsj_libor.asp

The 5-year Treasury Rate
<http://www.federalreserve.gov/releases/h15/data.htm>

The interest rate on a guaranteed loan or line of credit may be fixed or variable as agreed upon between the borrower and the lender. Variable rates can be adjusted daily, monthly, quarterly, semi-annually or a determined number of years.

If it is a variable rate, it must be tied to an index or rate specifically agreed to between the lender and borrower. The lender is not required to tie its guaranteed loan interest rates to 3-month LIBOR or 5-year Treasury, nor is it required that the rate remain below the maximums throughout the term of the loan.

Maximum interest rate rules apply to both loan closing and loan restructuring.

Personnel Changes in the Farm Loan Division

Retirements

As many of you all know, Debra Hunt, Farm Loan Specialist and head of the guaranteed loan program, retired on July 1st, 2013 with 36+ years of federal service.

Mitch Whittle, Farm Loan Chief retired on December 31st, 2013, with 39+ years of federal service. He served as Farm Loan Chief since 2007.

Farm Loan Division New Employees

Mike R. Hoyt was promoted to Farm Loan Chief. Mike has been with the Agency for 24 years and has spent the last 11 years as Farm Loan Specialist.

Earl Reynolds was promoted to a Farm Loan Specialist. His primary responsibility will be the oversight of the State's FSA guaranteed loan program. He brings 25 years of experience with the agency, spending the last 17 years as the Farm Loan Manager in Cynthiana.

2-FLP Handbook Revisions

Highlights of Amendment 22 dated 04/16/2013

- * Amended to provide new maximum interest rate requirements that will be effective May 3, 2013.
- * Amended to remove the definition of “average agricultural loan customer”.

Highlights of Amendment 23 dated 6/13/13:

- * Amended to clarify which lenders are eligible to participate in the FSA Guaranteed Farm Loan Programs.
- * Amended to add SED’s responsibilities for SEL status requests from nontraditional lenders .
- * Amended to clarify SED’s responsibilities approving CLP status requests, recommending PLP status, and lending monitoring.
- * Amended to provide an example PLP CMS summary
- * Amended to clarify that lenders can submit applications electronically by FAX or e-mail.
- * Amended to clarify that GLS is the official loan application date record .
- * Amended to add the authorized Agency official will provide the lender with written notification that an application is withdrawn.
- * Amended to provide guidance on the eligibility requirement for an applicant to be a citizen of the U.S., U.S. noncitizen national, or a qualified alien.
- * Amended to clarify that an applicant convicted of any Federal or State offense for distribution or possession of a controlled substance shall be ineligible.
- * Amended to clarify that NPO’s are typically not eligible for FSA guaranteed loan assistance.
- * Amended to clarify that purchasing 100 percent of the stock of a corporation is considered to be the same as purchasing the assets themselves.
- * Amended to provide guidance on refinancing existing guaranteed loan debt.
- * Amended to provide guidance on the maximum loan term for qualified aliens.
- * Amended to clarify when a loan qualifies for a 95 percent guarantee.
- * Amended to clarify guidance on lenders closing loans that have been approved when funds are not available.
- * Amended to provide guidance when a lender has closed an approved loan before funds are available.
- * Amended to clarify when loan qualifies for a waiver of fees.

Highlights of Amendment 24 dated 9/26/13:

- * Amended to update the fiscal year for the maximum loan levels.

Highlights of Amendment 25 dated 12/16/13:

- * Amended to clarify how lenders will inform FSA in the loan narrative how they plan to determine real estate collateral value.
- * Amended to allow lenders to complete evaluations of collateral for certain loans under \$250,000.
- * Amended to allow lenders to use appraisals over 12 months old under certain circumstances.
- * Amended to clarify when a lender may submit an evaluation or appraisal depending on the loan.

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2014 Guaranteed Lender Training Meetings

FSA has scheduled five Guaranteed Lender Training sessions across the state for 2014. There is a lot of new information to discuss as we were unable to meet last year due to budget restraints.

- Tuesday, April 2nd: Clark County Cooperative Extension Office located at 1400 Fortune Drive, Winchester KY, (Take Exit 96 off I-64, Turn North onto Highway 627, Turn onto Fortune Drive).
- Wednesday, April 3rd: Lake Cumberland Area Development District located at 2384 Lakeway Drive, Highway **80**, Russell Springs, KY.
- Tuesday, April 8th: Hardin County Cooperative Extension Office located at 201 Peterson Drive, Elizabethtown, KY, next to Jacobi Case-Int Equipment Sales.
- Wednesday, April 9th: KY Community and Technical College located at 1127 Morgantown Road, Bowling Green, KY, (Located near the Natcher Parkway on U.S. Highway 231 near Wal-Mart. The building has a glass front).
- Thursday, April 10th: Marshall County Cooperative Extension Office located at 1933 Mayfield Hwy, Benton, KY. From Purchase Parkway, take the Hardin/Murray Exit (exit 41) on to Hwy 641, at first stoplight turn right onto Hwy 58 (Mayfield Rd). Extension Office will be on the left.

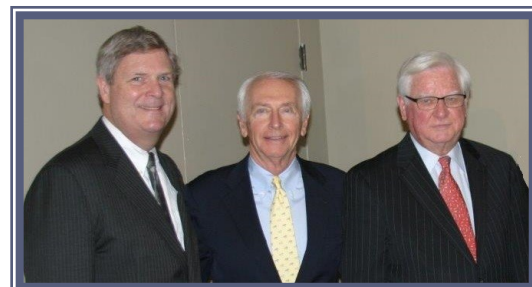
All meetings will begin at 9:00 a.m. and end at approximately 12:00 noon, local time. The discussion topics will include guaranteed loan issues. Preferred and Certified Lenders are required to attend, but all agricultural lenders are encouraged to participate in these meetings.

Lenders are encouraged to attend the meeting closest to the location, but may attend any meeting if conflicts occur with a particular meeting date. We look forward to seeing you at the meetings.

Kentucky Included in USDA's StrikeForce Initiative States

Agriculture Secretary Tom Vilsack joined Kentucky Governor Steve Beshear and Congressman Hal Rogers to announce the expansion of the U.S. Department of Agriculture's StrikeForce Initiative into four additional states: Kentucky, Louisiana, Tennessee and West Virginia.

The USDA antipoverty program, called StrikeForce, matches federal funds with local projects and their sponsoring organizations. There are 73 counties in Kentucky included in this part of the StrikeForce, meaning the USDA will partner with local community organizations, businesses, foundations, universities and other groups to support local projects and pursue needed investments into rural areas.



USDA Secretary Tom Vilsack, Governor Steve Beshear and Congressman Hal Rogers.



Secretary Tom Vilsack

Kentucky Farm Loan Program National Standings as of September 30, 2013

FY 2013

- Direct OL loans – 1st 1,362 loans with \$50,990,000 dollars loaned
- Youth loans – 1st 263 loans with \$963,670 dollars loaned
- Total loans – 2nd 1,762 loans with \$134,714,000 dollars loaned
- Microloans – 3rd 288 loans with \$3,531,630 dollars loaned
- Beginning Farmer loans- 3rd 662 loans with \$30,557,510 dollars loaned
- SDA loans – 4th 262 loans with \$5,868,590 dollars loaned
- Guaranteed loans obligated is 280 loans for \$67,742,000, or 50.3% of the dollars obligated
- Direct loans obligated is 1,782 loans for \$66,971,000, or 49.7% of the dollars obligated

Existing Borrower Caseload

- Direct loan borrowers – 3rd 3,699 borrowers with the outstanding loan balance of \$295,294,231
- Guaranteed loan borrowers – 16th—932 borrowers with the outstanding loan balance of \$284,522,415

Kentucky Farm Loan Team Receives Outstanding Achievement Award



L to R: Linda Anderson, Jacky Ott, John W. McCauley, Rebecca Webster, Earl Reynolds, John Hoskins, and Mike Hoyt

The Outstanding Achievement Award was given to the KY Farm Loan Staff. In 2013, Farm Loan Program loan approval officials and the support staff approved 254 Microloans for an approval total of \$4,074,870. This outstanding service directly contributes to the accomplishment of the agency strategic goal of providing a financial safety net for America's farmers and ranchers.